

### Switching Systems: Technological Change, Competition, and Privatisation

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Owen Darbshire\*

## Switching Systems: Technological Change, Competition, and Privatisation\*\*

*New technology and expanding service capabilities are leading both to substantial competition in the telecommunications industry, and also to the demise of public ownership. The case of Deutsche Telekom illustrates that although public sector status failed to provide sufficient strategic or organisational flexibility in a dynamic market this was less due to the public sector institutions of industrial relations themselves, than to the interaction of institutions with political decisions, which reduced Telekom's ability to restructure itself in an increasingly competitive environment. Nevertheless, the privatisation of Telekom also highlights the central co-ordinating role of the public sector's hierarchical Personalräte works council structure. The strategic challenges for unions inherent in the decentralised private sector works council system illuminate the importance of unions providing inter-works council co-ordination, in addition to the usually emphasised co-ordination between union and works council—an ability central to unions retaining their influence under conditions of increasing decentralisation.*

*Neue Technologien und erweiterte Leistungsangebote führen zu beträchtlichem Wettbewerb in der Telekommunikationsbranche und zu einem Rückgang der öffentlichen Beteiligung an den Telekommunikationsunternehmen. Der Fall der Deutschen Telekom veranschaulicht, daß der öffentliche Status keine in einem dynamischen Markt ausreichende strategische oder organisatorische Flexibilität zuließ, daß dies aber weniger den Institutionen der Arbeitsbeziehungen im öffentlichen Sektor per se angelastet werden kann, sondern auf ein Zusammenspiel von Institutionen und politischen Entscheidungen zurückgeführt werden muß – ein Zusammenspiel, das die Fähigkeit der Telekom einschränkte, sich in einer Umwelt zunehmenden Wettbewerbs zu restrukturieren. Die Telekom-Privatisierung erhellt darüber hinaus die bedeutende Koordinationsfunktion, die den Personalräten als den hierarchisch organisierten Personalvertretungen im öffentlichen Sektor zukommt. Umgekehrt weisen die strategischen Probleme, die sich für die Gewerkschaften aus dem dezentralisierten Personalvertretungssystem durch Betriebsräte im Privatsektor ergeben, auf die Bedeutung einer besonderen Form der Koordination: Über die häufig betonte Koordination zwischen Gewerkschaft und Betriebsrat hinaus müssen Gewerkschaften eine Koordination zwischen den Betriebsräten selbst herstellen, wenn sie ihren Einfluß unter den Bedingungen verstärkter Dezentralisierung aufrechterhalten wollen.*

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## 1. Introduction

The conjunction of technological change, globalisation, demands for flexible and customised production, and increasing competitive pressures have fundamentally affected service industries as well as manufacturing. As the dominant service industry (and, indeed, fast becoming the dominant industry) telecommunications is both a fundamental recipient and conduit of this change. Digital switching equipment, and the convergence of the telecommunications and computer industries, is vastly increasing the range of products that can be offered to both businesses and individuals—a move from ‘POTS’ (Plain Old Telephone Services) to ‘PANS’ (Pretty Amazing New Services). In turn, this has substantially promoted the globalisation of the industry, itself reflected in the expansion of international joint ventures between telecommunications companies. Furthermore, these changes have created widespread pressures for the liberalisation and privatisation of previously government owned monopoly telephone companies (Hills 1986, 1991).

In Germany, however, the move towards both liberalisation and privatisation has been slow, reflecting the institutional context of political decision making (Webber, 1992). A 1989 reform (‘Post Reform I’) created three largely independent companies (Telekom, Post, and Bank) from the previously monolithic Deutsche Bundespost (DBP), separated the regulatory and entrepreneurial activities of the DBP, and introduced some marginal competition. As Webber (1992) argues, the impulse for this reform came from new technology and international pressure, such that “technological and market change may be seen as political ‘ice-breakers’ ” (p.175). In spite of the limited nature of these initial reforms, the pace of change has quickened, and on 8 July, 1994 the Bundesrat completed the long political process to change the Basic Law, and thereby transfer the three Deutsche Bundespost companies (Telekom, Post, and Bank) into private joint stock status (*Aktiengesellschaft*) from 1 January, 1995.<sup>1</sup>

This transformation to an *Aktiengesellschaft* (AG) will significantly impact on the framework and practice of industrial relations in all three DBP companies. The changes will include: An important decline in the hitherto high level of ‘political contingency’ (Batstone et al., 1984) that characterised company strategic, operational, and industrial relations decisions; radical changes in the works council structure, strategy, and daily operating procedures; a new bargaining structure and process; and it will necessitate substantial changes to the strategy, organisation, and role of the Deutsche Postgewerkschaft (DPG), the union representing workers throughout the DBP. These changes, which are being driven by new institutional structures, are

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<sup>1</sup> This transfer does not amount to an actual privatisation of the DBP, but rather a transfer to private sector status. The first tranche of shares in Telekom is due to be sold in 1996, while the government will retain a majority shareholding until 1999 in Telekom, and at least 2000 in Post. Nevertheless, for ease, the term privatisation is used to refer to the change to private sector status.

compounded by organisational, strategic, operational, and technological changes already initiated within DBP Telekom and Post.

The challenges facing the employees' representatives in this process are substantial, even though the political process of privatisation has created an institutional structure of representation that is, even in Germany, uniquely strong. These challenges require appropriate strategic responses from the union and works council if the German 'dual structure' is to secure both flexibility and employee protection. The strategic responses include the need for rebalancing the respective roles played by the union and the works councils. However, this analysis contrasts with previous analyses of the 'dual system' based on research in manufacturing, or in the metal working sector more specifically, and the automobile industry in particular (see, *inter alia*, Thelen, 1991; Turner, 1991; Streeck, 1984a, 1984b; Katz, 1993). Rather than the shift in roles being essentially a decentralisation of capabilities to works councils, it is the union that will be required to develop a new co-ordinating function *between works councils within the same company*.

Through an examination of the public ownership of Deutsche Telekom, and the process and rationale for its privatisation, two principal arguments will be made: First, public sector status proved an insufficiently flexible structure to address the needs of a firm facing substantial technological change, and an increasingly customer orientated environment. However, this conclusion is based most notably on the influence of political decision making, rather than on the structure of public sector industrial relations institutions *per se*. These institutions, including the *Beamte* (civil service) status of half Telekom's workers, the hierarchical *Personalräte* (public sector works council) structure, and the collective bargaining institutions, have not *themselves* been shown to be a significant hindrance to Telekom. Nevertheless, where public sector institutions have interacted with political strategic choices they have inhibited the development of a customer focus to Telekom, and have slowed internal reforms.

Secondly, it is argued that the public sector works council structure (*Personalräte*) has important strategic advantages for unions over the private sector one (*Betriebsräte*). In particular, the centralised, hierarchical, framework of the *Personalräte* significantly aids the ability of workers to ensure interaction with strategic decision makers, while simultaneously co-ordinating conditions across works councils. The (multiple) decentralised, non-hierarchical, *Betriebsräte* in different establishments within a single company face the significant danger of the absence of a co-ordinating mechanism *between* themselves, requiring an additional role for the union, even given the presence of a central works council (*Gesamtbetriebsrat*). This problem is most likely to exist in large service industry companies where production units are typically both smaller and locationally more diverse than in manufacturing. Additionally, the decentralised *Betriebsräte* in this environment are not assured of interacting with strategic decision makers within the firm. This means that in multi-plant firms they are best suited to cases where

management decision making is *also* decentralised to the plant level, or where they successfully co-ordinate their interaction at the strategic level.

The analysis will proceed in four stages: First, the pre-privatisation status of Telekom, and the 1989 Post Reform I, are outlined. Second, the constraints of the public sector are examined in two respects—through the impact on organisational structure, strategy, and thus work organisation, and also through bargaining. Third, the privatisation of Telekom is sketched. Fourth, the comparative role of works councils in the public and private sectors is examined, addressing the strategic role the underlying difference requires the union to play. The conclusion assesses the implications for other German companies, and argues that in the “dual system” it is not just the *inter* union and works council link that is important, but rather also the union *intra* works councils links.

## 2. Political Status: Before and After Post Reform I

Prior to the privatisation of the Deutsche Bundespost, its existence was based on Article 87 of the Basic Law, which determined that the DBP had to be operated as a federal administration, subject to exclusive federal legislation (with the need for the consent of the Bundesrat), with the federal Minister for Posts and Telecommunications having autonomous responsibility in the conduct of DBP affairs. Furthermore, operation of the DBP had to be in accordance with the general economic, financial, and social policy of the government, while separate legislation governed the operational practice of the DBP (Schmidt, 1991, 1993; Dörrenbächer, 1988; Büchner, 1993).<sup>2</sup>

Prior to Post Reform I in 1989, the DBP was itself also a part of the federal Ministry of Posts and Telecommunications, was a monolithic entity (encompassing the three functions of telecommunications, postal, and banking services), and there was no separation of regulatory or operational decision making. The DBP was thus directly and immediately subordinate to the federal minister, resulting in a fundamental political basis to decision making. Besides the role of the Ministry of Posts and Telecommunications, the ministers of Finance, the Interior, Economics, and Labour all had competence in their respective jurisdictions. Furthermore, in formulating policy for certain management decisions, the Minister of Posts was required to seek the consent of the *Postverwaltungsrat* (Postal Administration Council), a body comprising 5 members from each of the Bundestag, Bundesrat, and industry, 7 from the unions, and 2 telecommunications and financial experts (Dörrenbächer, 1988; Schmidt, 1991).

In strategic, operational, and organisational policy formulation, therefore, all stakeholders were well represented, even apart from more indirect political influence of both the workers’ representatives and the industry (including, in particular, such equipment suppliers as Siemens, IBM, and Nixdorf). This had substantial effects on

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<sup>2</sup> These additional laws included the *Postverwaltungsgesetz* (Postal Administration Act) and the *Fernmeldeanlagen-gesetz* (Telecommunications Installation Act).

the choice of new switching equipment and prices paid for this, the tariff structure, development of new services, and the role of the unions. Furthermore, Schmidt (1991) notes that the influence of multiple ministries hampered organisational flexibility (p.216). Indeed, attempts at reform in the late 1970s, which had focused on the organisational structure of the DBP rather than liberalisation, failed.

Following the report of the Witte Commission in 1987, a process of reform of the DBP was initiated. This culminated in 'Post Reform I' which restructured the DBP on 1 July, 1989. The principal effects of Post Reform I were that regulatory and political functions were removed from entrepreneurial ones; the three enterprises were given independent entrepreneurial functions to be run by management boards; prices were to be increasingly based on costs, with more focus on profits; and there was to be greater flexibility in personnel policy. Furthermore, the telecommunications market was reformed, with some additional competition, though Deutsche Telekom retained monopoly of both the core network and voice services (90% of their revenue source).

The debate surrounding the reform focused on a dichotomy of views of the appropriate role of the DBP, and its constituent parts (especially telecommunications). On the one hand was the view that the DBP should be a federal administration, governed by Article 87 of the Basic Law, "which effectively stands against a primarily profit-orientated supply" (Schmidt, 1993, p.4), and was rather based on the basic infrastructural obligations of the DBP for all consumers. On the other hand digital technology was providing the opportunity for a substantial range of new services to business customers in particular, but such a change required a new structure for the industry. Behind these arguments, the DPG union had launched a campaign against liberalisation in October 1986, not least because of their fear that it could lead to a weakening of their institutionally strong position, an erosion of the beneficial social conditions that they had negotiated as a public administration, a lessening of job protection and training opportunities, and the divergence of conditions among the three constituent parts of the DBP. With the support of the SPD, equipment suppliers, and federal states they were able to limit the extent of reform. Additionally, they were able to secure the establishment of a "Council for Infrastructural Matters" that included involvement for federal states, and an "Office for Welfare" that was designed to prevent the divergence of workers' rights and conditions in the three enterprises (Schmidt, 1991).

### **3. The Public Sector as a Hindrance?**

The compromise nature of Post Reform I meant that in spite of the increased entrepreneurial independence within Telekom, direct political control, and indirect

political influence, continued to play an important role in a multiplicity of operational areas. In turn, these have had significant implications for the organisation of work, personnel policy decisions, bargaining and industrial relations, and the speed to which Telekom has focused on customers and adopted new services.

### 3.1 *Work Organisation and Operational Structures*

Before Post Reform I, while part of the Ministry of Posts and Telecommunications, senior management of the three DBP companies were organisationally integrated, leading to a focus on basic, technological, infrastructural goals, rather than diversified customer requirements. Furthermore, even within the telecommunications section, the functional organisation reflected historical evolution, and political positioning. In an example of (in terms of organisational theory) the old structure defining the new, Post Reform I maintained this political organisation—for example, with the separation of switching and telephone services on the one hand, and transmission operations on the other. While this suited a technological orientation in an analogue environment, the (politically determined) failure to reform this structure until 1992 inhibited the effective planning of the digital network (since operational requirements suggested the integration of switching and transmission in order to gain economies of scope, and to plan effectively the digitalisation of the network, given that returns to the technology are considerably enhanced when technological updates occur in both operational areas).

Digitalisation, which was the spur to the need to reorganise the network, was consequently slowed, and has substantially lagged other international carriers. In spite of beginning the digitalisation programme in 1985 emphasis was given (up until 1992 especially) to optimising the use of existing analogue technology, and by 1994 only 30% of the network was digital. However, this reflects more than a politically determined organisational structure. As a monopoly Telekom has lacked both the *market* and the *political* spurs to orientate its technological strategy around a customer focus, or to maximise the customer service potential of new technology. Politically, this significantly reflects the emphasis of both the Ministry of Post and Telecommunications, and the Basic Law, on simple infrastructural goals and a technological orientation. Furthermore, and importantly, existing stakeholders have lacked the incentive to use their strong (institutionalised) influence to change this situation. This is particularly so given that the new technology in telecommunications implies a fundamental shift in the *focus* and *philosophy* of the company, which (together with implied rationalisations) challenges their position. Existing stakeholders have, therefore, largely promoted the status quo.

The impact has been on the adoption of new technology and the degree of modernisation of the network, customer orientation, and the cost and breadth of services offered (Gerpott and Pospischil, 1993; DTI, 1994). These operational and organisational effects have had important implications for work organisation and industrial relations. Work has hitherto been specialised around *technological* types, with the emphasis on analogue equipment, and a correspondingly slow development

of digital skills. This functional organisation of operations has been in contrast to a strategy of de-emphasising technology in favour of a customer focus, with a corresponding increase in sales, marketing, and business management skills. Indeed, Telekom recognises that it is particularly lacking in these skills, as a direct result of having focused on the infrastructure and not customers.<sup>3</sup>

As market pressures (and European Union decisions) have continued to reduce the force of the political contingency, major reorganisations of corporate strategy and work organisation have resulted. Telekom Service 2000 (TS2000) involves a rationalisation and reorganisation of work, including a concentration of technological operations, specialisation of work by customer type rather than technological type, and some associated multi-skilling in both the Business and Private Customer divisions. Telekom Kontakt involves a reorganisation of company structure, with a divisionalisation of Telekom into Networks, Business Customers, and Private (Residential) Customers (Darbshire, 1995). Nevertheless, although these changes in work organisation are now on-going, they also lag behind change in other telecommunications companies. Indeed, the lack of a customer focus is illustrated by the fact that while the quality of the basic network has frequently been high, basic computer systems to enhance customer service have been absent. Thus, not only have such services as account billing breakdowns been unobtainable, but until the end of 1993 all customer details (for both business and residential customers) were on index cards. This both reflects, and in turn substantially affects, the organisation and process of work within Telekom. During 1994-1996 customer focused computer systems are planned to be expanded and integrated to enable the provision of higher levels of service. Furthermore, it is as these systems are introduced that new work processes and work organisation will be introduced.

The current organisational reform (and divisionalisation) of Telekom entailed in Telekom Kontakt, which both reflects and is designed to facilitate Telekom's new strategy, would also not have been feasible prior to Post Reform I in 1989. At that stage, the management of the Deutsche Bundespost 'companies' shared many facilities and services at both the "*Generaldirektion*" and "*Direktion*" levels.<sup>4</sup> Managing a divisional structure would, at the very minimum, have been highly complex. Indeed, Telekom has argued that the requirement (prior to privatisation) to maintain a three tier structure, with minimum levels of functions at all levels, has also hindered the decentralisation process contained within the Telekom Kontakt programme.<sup>5</sup>

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<sup>3</sup> Nevertheless, new training programmes developed between 1992-1994, such as *Kaufmann/Kauffrau für Bürokommunikation*, are intended to help rectify this weakness.

<sup>4</sup> Public sector companies in Germany are required to be organised on a three tier structure. In Telekom, these have been the *Generaldirektion*, *Direktion*, and *Ämter* (renamed in the Telekom Kontakt reorganisation *Niederlassungen*).

<sup>5</sup> It is not, however, possible to examine this claim, since the process of decentralisation and divisionalisation within the Telekom Kontakt programme is not yet sufficiently advanced. International evidence suggests, however, that it could be managed.



The role of the Ministry of Posts and Telecommunications has also significantly increased the centralisation of management, caused a high degree of centralised regulation, and slowed changes in work organisation. To a substantial degree this has reflected political control over decision making, not least because of the implications of Telekom's investment decisions (with investments of DM 25.5 billion in 1993, Telekom's investments represented the equivalent of 25% of all manufacturing and process industry investment in Germany, including mining), employment, tariff levels, and revenue decisions—between 1990-1993 Telekom contributed an average DM 6.9 billion per annum to the government in levies, taxes, or financial compensation to other DBP companies.

This political contingency is further reflected in the timing and scale of investments in eastern Germany—a planned total of DM 60 billion by 1997—and the choice of private sector contractors (through “Turn-Key” projects) to complete much of this work.<sup>6</sup> When combined with the political emphasis on speed and not costs, the use of contractors has also had a detrimental effect on quality, while much of the investment would not have been financially or economically feasible for a private sector company—itsself reflecting Telekom's direct fulfilment of its constitutional infrastructural obligation.

Political and bureaucratic control was also reflected in the evolution of the TS2000 rationalisation of work organisation. The first programmes of change date from 1983-1985, though then the underlying philosophy was different, reflecting the different organisational structure to the company, and in particular an absence of a customer focus. Instead, the reorganisation was to be functional. Yet even in this framework change was very slow, and although widely viewed as effective, the current reorganisation is highly centralised and bureaucratic, encompassing 800-900 pages of regulations, including the single digit specification of employment levels required in field offices.<sup>7</sup>

A further important strategy adopted by Telekom to circumvent perceived inflexibility, such as in the public sector organisational structure, wage systems and incentive pay, and *Beamte* (civil service) rules, has been the foundation of subsidiary companies, which similarly has important industrial relations implications (Darbishire, 1995). The extent of the direct influence of politicians within Telekom has, however, been most direct in the areas of bargaining and human resource management.

### 3.2 *Politics and Bargaining*

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<sup>6</sup> This preference of the CDU/CSU/FDP coalition government did, however, also fit with Telekom's objectives, since in the push for privatisation it was anxious to show that the private sector could play an important role in a rapid infrastructural development.

<sup>7</sup> It should be noted that both the Telekom Kontakt reorganisation, and a KQM (Kunden Qualität Management) programme, are seeking to move Telekom away from this bureaucratic model, both entailing a decentralisation of operational capabilities (Darbishire, 1995).

Two factors underlie the direct political control of bargaining: First, the legal status of *Beamte* results in their employment security on the one hand, but an absence of rights to collective bargaining or industrial action on the other. Rather, their employment conditions and wages are determined by parliament (in the Federal Remuneration Act),<sup>8</sup> and not by Telekom management. Secondly, although Post Reform I established Telekom as a ‘company’ with the authority to conclude collective bargaining agreements with the unions for *Arbeiter* (workers), and *Angestellte* (white collar workers), this was sharply limited by its continuing structure as a public administration.

Prior to 1989 responsibility for collective bargaining rested with the federal Minister for Posts and Telecommunications, though in practice bargaining was carried out by the Minister of the Interior, along with the entire public sector (in the *Tarifgemeinschaft öffentlicher Dienst*). Post Reform I delegated to the Management Boards of each DBP company the right to conclude independent collective agreements with the Deutsche Postgewerkschaft (though they are entitled to form a single DBP bargaining unit, or *Tarifgemeinschaft*). This right was, however, also limited by the Deutsche Bundespost Constitution Act, which delegated bargaining competence to the Minister of Posts and Telecommunications and the Minister of the Interior for any issue of “fundamental importance” to the rest of the public sector. This has been deemed to account for nearly all matters contained within either a wage agreement (*Lohntarifvertrag*) or agreement on working conditions (*Manteltarifvertrag*). Thus, Telekom’s negotiations have been carried out not only within the context of the DBP, but of the whole public sector. Owing to its size, ÖTV leads these negotiations for the unions, with the Minister of the Interior being the government’s counterpart.<sup>9</sup> (Formally the DBP negotiations are parallel to those of ÖTV, though the extension is almost complete.)

This bargaining structure substantially limited Telekom’s (and the DPG’s) freedom to pursue their own agendas, severely restricting the range of agreements that could be reached. Although this centralised bargaining structure is somewhat akin to sectoral bargaining in the private sector, important differences exist. First, the centralisation of bargaining in the public sector did not take wages out of competition for Telekom, since the administrative employment structure in the majority of the public sector does not reflect the more technically skilled work organisation in Telekom. The importance of this factor has, however, been muted by Telekom’s monopoly status in most operational areas. Nevertheless, as liberalisation of segments of the market, and technological change, make the nature of the skills and workforce requirements in Telekom increasingly like those of the private sector, Telekom has found itself in increased competition for technical skills.

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<sup>8</sup> *Bundesbesoldungsgesetz*.

<sup>9</sup> In 1992 ÖTV (Gewerkschaft öffentliche Dienste, Transport und Verkehr) had a membership of 2.1m, compared with 611,244 for the DPG (Source: DGB Vorstand).

Related to this, Telekom has not had the opportunity to conduct (informal) supplementary negotiations with the works council at the enterprise level, and thus to have a degree of wage drift common amongst large private sector companies. Telekom has thus feared being “held back” if bargaining was to remain tied to quite different sets of technological and personnel conditions within the rest of the public sector. Indeed, these conditions are also quite different within the DBP, as witnessed by Post’s personnel costs amounting to 76% of its cost structure in 1993, and Telekom’s 33%.

Nevertheless, both prior to Post Reform I, and subsequently, some bargaining flexibility has existed. First, where employment conditions within Telekom are particular to itself (such as with technical specialists) specific rules have applied, and Telekom’s job grading structure thus exhibits small differences both to Post, and to other parts of the public sector. Secondly, the consequences of rationalisation measures have been negotiated within contracts specific to Telekom, such as with the 1994 Telekom Service 2000 *Tarifvertrag*. Third, the DPG has been successful in extending some working conditions it has negotiated with Telekom (or the BMPT prior to 1989) to *Beamte*, creating a pseudo-bargain for *Beamte*. This is achieved through Telekom agreeing to *apply* the agreement to all workers, with the TS2000 contract again a recent example. Fourth, some flexibility to negotiate conditions within the DBP as a whole has, historically, been possible. However, the different employment and financial conditions of the DBP companies has again constrained both the DPG and Telekom. This is illustrated by the DPG’s inability to extend equal rights of full-time employees to part-timers, owing to the opposition not of Telekom, but of Post (which has a high proportion of part-timers, and is constrained by being a loss making enterprise).

The realisation that Telekom was increasingly operating in a more market orientated environment led to the inclusion of two unique components within Post Reform I. The first involved an increase in the flexibility of the *Beamte* grading and promotion structure (*Postlaufbahnverordnung*), easing the rules determining ratios of specific hierarchical classifications, thereby allowing Telekom to compete more flexibly in the labour market for technical skills. (The desire to reduce employment levels has, however, meant that it has also begun to be used as a motivational tool for decentralised management.) Post Reform I also established the *Postleistungszulagen*, an individually based performance related pay system, restricted to the DBP, and which initially applied to *Beamte* only (though in 1992 bargaining it was extended to all workers). The objective was to increase the motivation of employees (*Beamte*) who enjoyed fundamental employment security in an increasingly customer orientated sector. It comprises a decentralised system, whereby up to 25% of workers (and 40% of a given grade) can be paid a bonus based on their (largely subjectively determined) performance level. This bonus is individually (not team) based, and amounts to between DM 60-230 per month for A3 classification workers, and DM 280-1230 per month for B3 workers. Telekom also has individualised contracts for top managers, though the number amounts to fewer than 50, and Telekom laments its

inability to use incentive pay systems for a wide range of senior management, to coincide with their increasing moves to Management By Objectives.<sup>10</sup> This is due to be an early change post-privatisation.

Generally, however, the existence of *Beamte*, who amount to 52% of Telekom's staff, has not been a restriction on internal mobility, while first and second line managers report no difference in productivity levels with *Arbeiter* and *Angestellte*. Indeed, *Beamte* are an extreme example of trading off external (or numeric) flexibility for internal (or functional) flexibility. Their legally determined employment security is counterbalanced by a legally determined job and locational flexibility. In practice, however, restrictions on the flexibility of *Beamte* have come through the extension of protections negotiated for *Arbeiter* and *Angestellte* to *Beamte* (as with the TS2000 contract).<sup>11</sup>

The greatest restriction on personnel policy has, however, concerned employment levels, which Telekom has been prevented from adjusting other than by employee turnover. Technological change, and digitalisation and fibre optic lines in particular, are substantially reducing employment needs in core telephone services. Other telecoms companies have been substantially reducing employment use—BT's falling, for example, from 235,000 in 1984 to 150,000 in 1994 (the reduction being predominantly post-1990, and with a target level of 100,000), AT&T's fell from 373,000 to 253,800 between 1984-1990, and an average fall of 28% has occurred among the US RBOCs' regulated telephone service (Keefe and Batt, 1994). During the same period, however, Telekom's employment has risen from 207,000 to 231,000. This rise is partly attributable to unification, while the reductions at BT and AT&T also reflect both the timing of technological change, and strategic choices made within the companies. Nevertheless, Telekom has been fundamentally constrained by its public sector status, a problem to be compounded over the next few years as the pace of planned technological changes and rationalisations increasingly reduce core employment requirements. Current goals of the elimination of 30,000 jobs by 1998 are widely expected within Telekom to be only half the real number. The constraints are not, however, simply the result of the employment security of the 52% of employees who are *Beamte*, or those *Arbeiter* and *Angestellte* who have 15 years of service and are over 40 years old.<sup>12</sup> Rather, Telekom was prevented from even offering early retirement or financially lucrative voluntary release programmes, in spite of this having been actively (though privately) pushed with ministers. Indeed,

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<sup>10</sup> The *Postleistungszulagen* is restricted in form, and cannot be used as a wide ranging incentive scheme, or be related to achievements of set objectives—this being largely related to its competitive structure.

<sup>11</sup> While motivation has not yet been an issue, it still remains possible that the employment guarantee *Beamte* enjoy will create problems if Telekom tries to speed up work in the face of competition—hence their desire for performance related pay. This has not yet proved a problem, though it may require careful management by Telekom in the future.

<sup>12</sup> Telekom has, in fact, a relatively young age profile, with 64% of employees being 40 or under.

the significance of this constraint is illustrated by Telekom's rapid post-privatisation announcement in February 1995 that it intends to increase its employment reduction programme from 30,000 by 1998, to 60,000 by 2000.

The political objections to employment reduction while Telekom was in the public sector were threefold. First, the weak labour market; second, public resentment against *Beamte*, deriving substantially from their employment security; and third, the budgetary position of the federal and *Länder* governments, which has led to strong pressure to increase the hours of *Beamte*, and restrain their wages, rather than reduce their working years. These constraints, and their prospective impact as digitalisation increases, were a principal (though understated) reason why Telekom pushed for privatisation. The privatisation Act does not change the employment security of workers (whether *Beamte*, *Arbeiter*, or *Angestellte*), though it does give Telekom the right to offer early retirement to *Beamte* at the age of either 55 or 60, depending on career level, and raises the opportunity to develop alternative voluntary programmes. Basic contractual restrictions do still apply, however, and this is forcing Telekom to have to seek alternative employment strategies wherever possible (such as joint ventures with Compaq, Cannon, Preussag, IBM, and Fabis, with additional proposed joint ventures with Kirch and Bertelsmann aiming to utilise Telekom's ownership of the world's largest cable television network). The strategic choices that are being forced on Telekom (by the employment rights of employees and the strength of the union) are thus quite different from those adopted in BT and AT&T, though greater political freedom facilitates a wider range of strategic choices within an anyway constrained environment (Darbishire, 1995).

#### 4. Flexibility or Institutional Security? Privatising Telekom

Both Post Reform I and Post Reform II, the privatisation of Telekom, were strongly opposed by the DPG and other unions represented by the DGB union confederation. Whilst opposing privatisation itself, the DPG also accepted the need to increase the independence of operation of the Deutsche Bundespost in general, and Telekom in particular. The DPG's preferred option, which it strongly pushed the SPD to agree as the only acceptable option, was to create the DBP as an "*Anstalt des öffentlichen Rechts*" — a statutory body under public law. The DPG's predominant concerns during the privatisation process were:

- deteriorating employment conditions in the private sector;
- a loss of employment security;
- the place of *Beamte* in a private sector company;
- a threat to the institutional position, strength, and influence of the DPG itself;
- a separation of the links between the three DBP companies, and consequent variations in conditions between them;
- a reduction of emphasis on infrastructural development;
- a rebalancing of tariffs to the detriment of residential customers; and
- the growth of differential levels of service by customer type.

Telekom, which was the principal force behind privatisation within the DBP, and which was also the centre of the attention of the CDU/CSU/FDP coalition, had four principal objectives:

- freedom from political control and bureaucracy;
- an easing of financial constraints;<sup>13</sup>
- the ability to conduct international joint ventures;<sup>14</sup> and
- freedom in the fields of personnel and industrial relations.

With respect to the last objective, Telekom wanted both greater employment and bargaining flexibility, and changes to the internal structures within Telekom. These included easing grading and promotional rules, training structures, more performance related pay, eliminating the three tier organisational structure, and breaking the institutional links with the other DBP companies. Telekom also wanted to reduce cost structures, which meant not being bound by existing contractual agreements, which they view as too generous and expensive.

After two years (which included extensive strife and negotiations, 30 days of industrial action and strikes involving 100,000 DBP workers immediately preceding the privatisation vote, and both political and industrial compromise) the two-thirds majority to privatise the DBP was agreed in July 1994. This compromise establishes the structure of Telekom, including the institutional representation of employees.

Although Telekom (like Post and Bank) has been 'privatised' separately, a Holding Company has been established, both to control the government's shares prior to their sale, but importantly also to be a party to future *Manteltarifverträge* (agreements on working conditions). This fits with the DPG's objective of maintaining equality of conditions between the DBP companies. The Holding is, however, considerably weaker in this respect than they had pushed for, though on the other hand, it does reduce the flexibility of each company in bargaining. A further important accomplishment with respect to bargaining was that the DPG has secured its *right* as the responsible bargaining party for the DBP companies, and also for all subsidiaries, which are in turn *bound* to negotiate with the DPG. This reflects the union emphasis on its institutional existence, rather than centralisation, being related to the unusual position of the DPG as a company-based union, rather than a sectoral one—a "more obvious" alignment being IG Metall (or IG Medien) representation in

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<sup>13</sup> This included reducing payments to the government, politically determined investment levels, subsidies within the DBP, and the freedom to raise more capital (in particular for international joint ventures) outside of tight government budgets and a very low ratio of capital and reserves as a proportion of total assets (of 22% in 1993).

<sup>14</sup> Telekom was restricted by the constitution from entering into joint ventures, and especially those not connected with basic infrastructural development. Some of its joint ventures fitted this latter category, for example, that with Ameritech to form the Magyar Com Group in Hungary, while others, such as the formation of Eunetcom with France Télécom, involved a narrower range of services because of restrictions. The agreement to purchase 20% of Sprint along with France Télécom in June 1994 would have been of questionable legality had privatisation not occurred.

Telekom, HBV for Bank, and ÖTV for Post. It thus also reflects the concern caused by the loss of IG Metall representation rights in IBM to DAG following that company's divisionalisation—a strategy that Telekom had privately considered for its subsidiaries. (Furthermore, an external agreement reached in June 1994 between IG Metall and the DPG will lead to co-operation in seeking representation in new telecoms companies in Germany.)

Employee representation rights in the Supervisory Board are also uniquely strong, with *equal* worker and owner representation. Given the dominance of the DPG, it will hold almost all of the employees' seats. Beyond this, a staff committee was legislated, with a workers' representative as chairman, which has responsibility for personnel matters of the Management Board. The change from the *Personalvertretungsrecht* to the *Betriebsverfassungsgesetz* as the law establishing works councils that accompanies privatisation would have led to an almost halving of the numbers of employee representatives released from work duties. This has been adjusted for, at least until June 1997.

Further important achievements for the DPG were that they secured the continuation of all contractual conditions after privatisation, the maintenance of 'social institutions and services' run by the DBP, the extension of contract conditions (including employment security at the age of 40 with 15 years service) to east Germany, the equalisation of wages in the east and west at the latest in conjunction with the public sector, and the application of equal conditions for all new workers—i.e. no duality in contractual arrangements for old and new employees, as has occurred in the Bundesbahn. These significant achievements reflect the pressure the DPG and DGB imposed on the SPD, together with the need for a two-thirds majority to change the constitution, and the DPG strike which would otherwise have delayed the privatisation decision.

On the other hand, the DPG was not only unsuccessful in preventing privatisation, but it also neither gained collective bargaining rights for *Beamte* (which has been a long-time goal, though one of increased importance as the balance of power is shifting from political to industrial muscle), nor established as strong a Holding Company as it wanted. Thus, *Beamte* will remain in Telekom (though in a new "*Beleihungsmodell*"—Sattler and Schwemmle, 1994), and their conditions will continue to be established by the government without any direct bargaining. Furthermore, the change from the public to private sector works council structures will challenge the DPG's ability to co-ordinate between these works councils.

## 5. Diverging Employee Representation Systems

The employee representation system in the public sector is based on the reverse principle to that in the private sector: In contrast to the essentially decentralised structure of private sector works councils (*Betriebsräte*), those in the public sector (*Personalräte*) are based on a hierarchically organised three tier structure, with authority based foremost in the *Hauptpersonalrat*, and flowing down the hierarchy to

the *Bezirkspersonalräte*, and the local *Örtliche Personalräte*. In the private sector, works councils are based on a non-hierarchical two-tier structure. It is works councils at the workplace level which are vested with initial authority, while the *Gesamtbetriebsrat* (or company works council) receives authority from the workplace works councils, and has competence for company wide policies, those that affect several establishments and which the individual works councils are unable to settle within their establishments, or for what is delegated to it, in writing and by a majority vote. That is, the fundamental flow of authority is upwards, rather than downwards as in the public sector. Indeed, this is the single most important distinction between the two structures, since their codetermination, information, and consultation rights are in essence alike.

### 5.1 Hierarchical Works Councils

The three tier structure of the *Personalräte* structure is designed to correspond to the traditional three tier structure of the government, i.e. federal, state, and community levels, and the correspondence intentionally results in the interaction of employee representatives with appropriate decision makers, whether they be at the strategic, tactical, or operational levels. As a public administration, Telekom also had to maintain this structure. For the employees, this meant the presence of 123 works councils at the local office level (*Ämter*), 23 at the intermediate (*Direktion*) level, and the *Hauptpersonalrat*.

The *Personalräte* structure helped to *reinforce* the centralisation within Telekom, and to encourage decision making within the *Generaldirektion* (the “Fortress on the Rhine”), and the *Hauptpersonalrat*. The DPG has had a consistent policy of maintaining a uniform level of conditions throughout the Deutsche Bundespost, and thus also to avoid any variation within Telekom. The *Hauptpersonalrat* shared these goals, while also being organised such that it has an automatic interaction with the DPG *Vorstand* (union executive board) following all proposals presented to it by Telekom. Indeed, these meetings with the DPG follow the monthly meetings with Telekom’s Management Board. Should there be any policy differences between the DPG and the *Hauptpersonalrat*, these are settled through a majority ballot, prior to any response being given to the Telekom Management Board.

Decision making is thus tightly controlled at this level, and agreements (*Dienstvereinbarungen*) between the *Hauptpersonalrat* and Telekom’s Management Board contain considerable detail, and are highly centralised in operation. The three most important recent examples are the agreements on the DELKOS decentralised cost control systems, the DASPO personnel data and management system, and working time flexibility. Rather than delegate all competence on this last issue to the office level, for example, the *Hauptpersonalrat* adopted a strategy of specifying the core working time (of 9am to 3pm), allowing local flexibility of 2 hours earlier, and 1½ later.



Such centralised control prevented any potential whipsawing or pressure management in an environment of substantial rationalisations. (In fact, the nature of investment decisions in the telecommunications industry makes whipsawing less likely than in manufacturing. Nevertheless, “precedent setting” and local managerial pressure can have the same effect.) Centralisation has also considerably reduced the degree of co-ordination required between the multiplicity of *Örtliche Personalräte*, though the input of lower levels is maintained through both union and works council structures in the initial decision making process. The extent of decentralisation within this framework is thus substantially limited, a further example being with the TS2000 rationalisations. Although in this case an unusual form of *Tarifvertrag* (contract with the unions) was made, local *Personalräte* decision making was effectively restricted to negotiations on the details of the social plan to determine which workers would relocate.<sup>15</sup> Yet the ability of the union and *Hauptpersonalrat* to conclude such centralised agreements is founded on the centralised nature of the *Personalräte* structure itself. That is, the *Hauptpersonalrat* has *competence* for decisions that it elects not to delegate.

The hierarchical public sector works council structure contains a further institutional security—that being, the ability to escalate disagreements through each level of works council, before potentially being submitted to an arbitration committee (*Einigungsstelle*). Such a process typically averages 6 months for a single local office, and potentially could occur throughout the company. Thus, not only does this provide an essential method of co-ordination for the union and works council, but the possibility prompts Telekom to co-ordinate their own management decisions and policies centrally.

Nevertheless, two points are of considerable importance. First, this structure has not fundamentally *caused* a centralisation of decision making in Telekom. Rather, the centralisation of decision making is already present, there being (to date) very little delegation of operational authority to the mid-level *Direktion* or especially local office (*Neiderlassungen*) levels, and indeed, there being a considerable absence of management tools to facilitate any such delegation.<sup>16</sup> Related to this, the hierarchical *Personalräte* structure has meant that Telekom cannot conduct strategic (or tactical) decision making at one remove from worker representatives.

## 5.2 Privatising the Works Council Structure

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<sup>15</sup> The contract securing employee protection against the TS2000 rationalisation measures was unique for a number of reasons. First, it is the first case in Germany of a contract *guaranteeing* employment security as the result of a rationalisation measure eliminating 11,000 jobs. Second, the “Projekttarifvertrag” applies to only part of the workforce (i.e. those affected by TS2000), and only for a limited time period, until end 1996, coinciding with the rationalisation and reorganisation programme (Darbishire, 1995).

<sup>16</sup> A principal feature of the Telekom Kontakt reorganisation is, however, just such a decentralisation of management competence. Even the pilot regions in this project, however, report an absence of management systems to enable them to realise these goals yet.

The transfer to the private sector *Betriebsrat* structure of works councils involves a considerable change in roles and responsibilities for employee representatives, and will demand both a new union/works council strategy, and also a new union structure. Furthermore, this change resulting from privatisation is occurring alongside, and compounding, Telekom's own organisational decentralisation inherent in its Telekom Kontakt project. The new role that is implied for the *union*, essentially one of co-ordination, illustrates the difficulties inherent in decentralisation even in Germany (Katz, 1993).

The DPG successfully negotiated with Telekom that the three tier works council structure would be retained at least until 30 June 1997 (in order not to lose the experience of existing works councillors), to be followed by negotiations over the future structure (with the DPG goal of maintaining all three tiers, though doubtful that they will achieve this). This structure will be important in helping retain co-ordination, though it will not amount to a hierarchical system. Furthermore, the change which is as important as the three tier structure is the decentralised competence inherent in the *Betriebsrat* system.

The *Gesamtbetriebsrat* (central works council), with a membership of 26, has rights essentially for company wide decisions, or where the individual *Betriebsräte* delegate their authority to it. Decision making is not hierarchical, and conflicts cannot be escalated to the *Gesamtbetriebsrat* as in the public sector. Thus, in cases involving codetermination rights, decisions that are not company-wide must be settled (through the *Einigungsstelle* arbitration committee if necessary) at the local office level. Telekom view this as speeding up decision making at this level, making it a feasible option. However, even if Telekom does significantly decentralise managerial decision making, they also face the potential for considerable loss of synergy if negotiations and policy making occur in local offices. Alternatively, the retention of decision making competence at a remove from the local offices implies that the works councils will be exercising their rights of codetermination, information, and consultation with managers who are not the principal decision makers. This risk is greatest for strategic decisions, and other operational decisions with broad impact.

There are a number of strategic responses required by the DPG to address these difficulties. First, it has sought to negotiate with Telekom over the appropriate works council structures. The agreement to have a transitional middle tier (replacing the *Bezirkspersonalräte*) eases the co-ordination problem between the *Gesamtbetriebsrat*, and the local works councils. With a limited membership of the *Gesamtbetriebsrat* (fixed at an operationally practical 26), not all of the over 150 individual works councils can be represented at this level. Co-ordinating decisions, policies, and even information, requires an effective second tier, even if it lacks decision making authority, hence the importance of this agreement with Telekom.<sup>17</sup> The DPG is pessimistic of its ability to extend this structure beyond 1997. In turn, the loss of a

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<sup>17</sup> Previously, the principal function of the *Bezirkspersonalräte* was one of co-ordination, while also possessing decision making rights.

second tier will entail the need to establish an alternative *union based* co-ordinating structure, requiring a change in the union organisational structure. The DPG does, indeed, have two advantages in addressing this co-ordination problem: First, its membership is restricted to the Deutsche Bundespost, giving it the ability to focus more closely on (and adjust to) “its” firms than many other unions. Thus, while a centralised union, the DPG structure already has the basis of such an organisation—with *Betriebsgruppenvorstand* at the *Betriebsrat* level (or a *Betriebsverwaltungsvorstand* in its absence), a *Bezirksvorstand* corresponding to the previous middle tier works council, and a *Hauptvorstand* at the *Gesamtbetriebsrat* level. Second is the institutionalisation of the position of the union’s stewards (*Vertrauensleute*), irrespective of their membership of works councils. A contract negotiated while within the public sector, this enables the *Vertrauensleute* to hold meetings, elections, and other activities using company facilities.

The importance of the *Vertrauensleute* will expand with privatisation owing precisely to the demise of the 3 tier works council structure. Already an important and powerful grouping within Telekom (and the whole DBP) owing to the strength of the DPG, the *Vertrauensleute* have the capability of forming the foundation of a co-ordinating structure not only between works councils, but also between establishment works councils and the *Gesamtbetriebsrat*. A central role will also be to ensure that the composition of the *Gesamtbetriebsrat* reflects the DPG policy stance. This is a central task of strong unions in all multi-establishment companies, and the achievement of this role can determine the importance and effectiveness of a *Gesamtbetriebsrat*. While in some large manufacturing plants, such as Ford and VW, the works council from the dominant plant can fulfil both the leadership and co-ordination role, the geographically diverse organisation of Telekom, and the lack of any clear “leading” works council, will increase the emphasis on the union to fulfil this role, and produce its own “middle tier.” This emphasises the importance of a strong union *within* the works council structure. It also illustrates that the greater the diversity within the firm, the more important such a structure is.

Thus, firms (and particularly manufacturing firms) with a restricted number of plants, and/or with a dominant plant that can itself lead and co-ordinate policies at both the establishment and company level, may need to rely less on such an additional union structure. (Cases in the automobile industry, however, indicate that these firms are also frequently those *with* such internal union strength—Streeck, 1984a; Thelen, 1991; Turner, 1991.) Yet large service industry firms, in particular those lacking both large and dominant plants, require just such an internal union structure to *complement* the works council organisation, and to create synergy between the two.

Such an *internal* union role plays an important part in complementing the *external* union role. Thus, this argument is complementary to Thelen’s (1988, 1991) view that the union and works council relationship is not a zero-sum one. Thelen argues that the pressures towards a decentralisation of bargaining, work reorganisation, skill demand changes, and employer fragmentation strategies,

increase the importance of workplace bargaining, thus threatening the traditional base of central union power. Nevertheless, Thelen contends that works councils do not necessarily get pulled apart from the union, and that “plant egoism” and enterprise bargaining do not necessarily follow (Streeck, 1984b). This is precisely because the dual structure in Germany allows strategies to be adjusted *within* these institutions, to retain overall union strength. Thelen furthermore contends that the shift from *quantitative* to *qualitative* bargaining, and technological change, requires such a shift, but that the ability of the union to play a central co-ordinating and agenda setting role depends on its organisational and political resources at plant level.

The argument advanced here is fundamentally consistent with this view, though it emphasises an additional element that is necessary to prevent either potential whipsawing/precedent-setting by the employer, or simply a fragmentation of worker representation and thus the undermining of their collective strength. The additional factor is *inter* works council co-ordination. Where decentralisation of bargaining is significant, such *intra* company co-ordination is needed as a supplement to *inter* company co-ordination. It is the decentralised nature of the private sector works council structure (in *contrast* to that in the public sector) that increases the imperative on the union supplementing such co-ordination. Nevertheless, the ability of the union to fulfil this co-ordinating task required by decentralisation is compounded by the divisionalisation inherent in Telekom’s customer orientated strategy, and Telekom Kontakt reorganisation.

### 5.3 Further Fragmentation: Divisionalisation

Telekom Kontakt, which began restructuring pilot local offices (*Niederlassungen*) in April 1994, aims most fundamentally at a divisionalisation and decentralisation of the company. The principal divisions are for Networks, Business Customers, and Private Customers, while a Systems Customers division (for 300 key accounts) was also established at the beginning of 1994, though as the DeTeSystem subsidiary. The introduction of a line organisation, decentralisation, market orientation, and customisation of service are central to this strategy. That is, Telekom’s strategy emphasises the desire to align the service offered, and thus work organisation, by division.<sup>18</sup>

To achieve this goal, Telekom is thus divisionalising its management structure, and has demanded a corresponding divisionalisation of the works council structure. That is, employees are to be represented by separate works councils according to their division, though with a single *Gesamtbetriebsrat*.<sup>19</sup> The DPG is particularly

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<sup>18</sup> This organisation bears a very strong resemblance to the Project Sovereign organisation in BT (Darbishire, 1993). This is not coincidental, and reflects both similar underlying strategies and conceptions of the market, but also the role of international management consultants, who have been rife in both companies.

<sup>19</sup> The exception is with the subsidiaries, who are not party to the *Gesamtbetriebsrat*, though they have representation in the *Konzernbetriebsrat*.

concerned with the fragmentation this would cause, since workers in the same location would be represented by different works councils. (Indeed, the extent of fragmentation could, in theory, become dramatic if every *establishment* opted to have its own works councils, which would nevertheless also be divisionally based.) Furthermore, Telekom Kontakt implies a tripling of the size of local offices, though with responsibility for only one operational function. This would result in the “responsible” manager for any given works council being at a greater geographical remove, increasing the difficulty for the works council of effectively exercising its rights.

Given the decentralised nature of the *Betriebsräte* system, divisionalising the works council structure threatens to produce differing conditions *by division*. The inability to hierarchically co-ordinate the whole system, as in the public sector, will greatly increase the likelihood of this, adding a greater imperative for the union that it structure strong and effective *inter* works council co-ordination. For Telekom, on the other hand, the *goal* is to allow both decentralised management (with the flexibility of personnel management that is implied by this), and to produce divisionalised working conditions, as appropriate to customer service requirements. As in AT&T and BT where the unions have also faced this dilemma, the union’s objective is to retain equality of conditions and collective strength. That is, their strategy is to avoid excessive divisional variation.

Evidence from BT suggests that strategic managerial decision making has not been decentralised to the local office level, though it has varied by division. Indeed, the divisions differ in the respect to which decentralisation is deemed a viable option, depending on the importance of network integration, and the complexity of the technology. That is, decentralisation is minimal in the networks division, low in the business customer division, though somewhat greater in the residential customer division. In Telekom this would imply that works councillors will be at the furthest remove from the strategists in Networks and Business divisions.<sup>20</sup> To avoid simply bargaining over the *consequence* of decisions, and to bargain over the *strategy* (Kochan, Katz, and McKersie, 1986), the DPG will need to create a greater centralisation than “naturally” occurs in the works council structure. Furthermore, it is the union that needs to ensure this centralisation since divisional decisions are *formally* not appropriate to the *Gesamtbetriebsrat*.

The DPG has three further strategies to ensure consistency of conditions throughout Telekom. First, they are bargaining over the organisational structure implied in Telekom Kontakt. That is, they are using their institutional strength, and the ability to bargain over the consequences of organisational change, rationalisations, and new technology, to bargain for “unified” local offices. Rather than divisionalising local management (and thus the works council), Telekom would

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<sup>20</sup> This assumes that Telekom will orientate its strategic decision making around divisions. Internal strategic thought, however, is contemplating the development of strategies by its 22 business units. This would provide an additional complication for the DPG.

then operate a “patch working” organisation. Although Telekom management are opposed to this, they were forced to agree to pilot trials of both organisational structures within Telekom Kontakt, with criteria by which each is to be judged. Ironically, having followed BT to the divisional structure, BT is now in the process of itself moving to a patch work organisation not dissimilar to that favoured by the DPG. Second, and related, the DPG is bargaining over how the works councils would be organised even should the divisional structure prevail.

The third strategy of the DPG is to prevent a decentralisation of competence to the works councils, with the inherent co-ordinating complexity that would entail, by retaining decision making competence within the union. The DPG is, indeed, perhaps the most centralised of German unions anyway. Since it is not faced with substantial numbers of differentiated companies facing different economic conditions, it has been able to focus on the needs of the DBP. Strategically it preferred contracts to works council/company agreements, even within the public sector (and company level agreements have been uncommon within Telekom, the only three important recent examples being DELKOS, DASPO, and Working Time). This was based on the greater legal strength of contracts, the centralisation of the company, and the ability to use its industrial strength to reach agreements. Indeed, it is for precisely these reasons that Telekom is seeking to increase the use of company level agreements (*Betriebsvereinbarungen*). The DPG strategy to avoid a divisionalisation of working conditions, to ensure interaction with strategic decision makers, and to retain co-ordination between local works councils, is thus to retain strong, centralised bargaining, though allowing some delegation to local works councils where operationally necessary.

## 6. Conclusion

The post-privatisation DPG strategy is premised on the objective of retaining co-ordination between works councils throughout the company, with the inherent centralisation this implies, while also retaining similarity of conditions across the DBP (again achieved through the centralisation of contractual negotiations). Telekom, on the other hand, recognises the dilemma facing the union, but is anxious to promote local (and divisional) flexibility. This is producing an on-going negotiation (both formal and informal) to establish how the institutions of industrial relations will operate in the privatised Telekom. Increased competition, the demise of the infrastructural orientation at the expense of a customer focused strategy, rapid technological change, and rationalisations being brought about by digitalisation serve to complicate this “negotiating” process while simultaneously emphasising the flexibility and adjustment needs of Telekom.

In this process, the DPG is conscious of avoiding the strategic error of the NCU in Britain—who in the immediate post-privatisation years focused on the goal of re-nationalisation, rather than developing alternative strategies by which BT could compete. It is with this goal in mind that the DPG, one of the more left wing German unions, are actively developing possible organisation strategies (which are consistent

with where other advanced telecoms companies are moving), additional employment opportunities, and market strategies that emphasise high skilled, quality competition.

These strategies are designed to reinforce the DPG's institutional position, which has been severely challenged by the privatisation process. The organisational requirements on the union within Telekom have been increased, their inherent ability to co-ordinate change and strategies in works councils reduced, and the reduction of political contingency implies more rapid change in technology and work organisation. These challenges highlight a hitherto under-emphasised feature of the private sector works council structure—namely its decentralised nature, not in relation to unions, but in terms of its very internal organisation within the firm. This is in direct contrast to the public sector structure, and stresses the importance of *inter* works council co-ordination—a role most feasibly facilitated by union stewards (*Vertrauensleute*).

The DPG does, however, have advantages over unions in other countries and companies in Germany in achieving its objectives. It is exceptionally strongly institutionalised within Telekom (legally, with respect membership levels of approximately 80%, in its existing organisational structures, and also in long-standing informal connections with pivotal decision makers), it has the ability to focus on just two important organisational units (Telekom and Post), and the pace of change within Telekom requires that Telekom maintain a positive relationship, given the union's and works councils' rights. Yet even in this context, the role the institutions (such as the *Gesamtbetriebsrat* and local works councils) will play will evolve out of both the on-going bargaining and the success of the union in structuring co-ordinating mechanisms between works councils.

The resulting structure is not predetermined by the legally mandated institutions. The change from the public to private sector does, however, clearly highlight the challenges faced. In doing so, it does more than illustrate the role that public sector status played within Telekom. Rather, it also shows the dilemma faced by many other firms in the private sector. That is, it illustrates that decentralisation and divisionalisation do not simply imply a shift of competence between the union and works council. Rather, the decentralised works council structure is shown to be complex in large firms. This requires not only effective co-ordination to maintain a consistent standard of working conditions, but also to ensure interaction with strategic decision makers. This task is eased insofar as decision making actually occurs at the plant level—as in many large manufacturing operations (including many automobile plants). In large service industry firms, however, the locational diversity of operations significantly complicates the imperative on the union to co-ordinate *inter* works council actions, while simultaneously managing the decentralisation from the union to works council level, and interacting with strategic decision makers.

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